



Predatory Auto Lending

August 2003

Consumer Fact Sheet on Predatory Auto Lending

What is predatory auto lending?

- Predatory auto lending is the practice of charging consumers excessively high interest rates for auto loans.

Who is doing it and why?

- Some car dealers may enter into agreements with lenders, to charge you a much higher interest rate than you could get by shopping around. This higher interest rate is known as a dealer “markup”, which allows dealers and lenders to profit at your expense. The more interest you pay, the more profit the dealer makes.

How does this affect consumers?

- Consumers who finance their loans through car dealers often end up paying hundreds, or even thousands of dollars more in hidden interest charges for a car loan. These hidden charges are in addition to the rate you could be charged, based on your credit history.
- For example, you may qualify for an auto loan at 4%, but the dealer may charge you 8% and tell you that is the best you can do. In reality, you can do better by shopping around for lenders and save a bundle.

Who does this happen to?

- Even the most sophisticated, savvy buyers can end up paying interest rate “markups” – and never know it. Consumer groups point to studies showing that “markups” for African-American and Latino car buyers are higher than those for Caucasian buyers with similar financial backgrounds.

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What is being done about it?

- On July 14, 2003 Governor Gray Davis signed SB 508, an important first-in-the-nation consumer protection bill.
- SB 508 helps ensure fair auto loan rates in California. It requires dealers to keep your sales records on file for at least seven years, showing how the dealers determined your credit worthiness.
- Law enforcement and consumer agencies will now have a paper trail for investigating excessive “markups” that don’t match the creditworthiness of the consumer. Dealers failing to comply with a court order to hand over these documents to the Attorney General could face a \$5,000 civil penalty.

Tips on How to Fight Back

- Shop around for financing before you even think about buying a car.
- Many banks, credit unions and online lenders offer competitive rates. Try to get at least 3 different quotes and don’t just take the first offer.
- If the interest rate on your current loan is too high, consider refinancing. Falling interest rates can help save you a bundle. Check with your bank, credit union or go online and shop around for the best rate on refinancing.
- If you think you were overcharged on an auto loan, you can contact:

California Dept. of Consumer Affairs 1625 North Market Blvd, Suite N 112 Sacramento, CA 95834

California Attorney General Public Inquiry Unit P.O. Box 944255 Sacramento, CA 94244-2550	Consumers for Auto Reliability and Safety (CARS) 926 J Street, Suite 522 Sacramento, CA 95814
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- You can also file an online complaint with the California Department of Consumer Affairs at www.dca.ca.gov and the California Attorney General at: www.ag.ca.gov/consumers
- For more details, including news reports about predatory auto lending and further updates, visit CARS’ Web site at: www.carconsumers.com.